

CIA/OER/S-06649-74 ARGENTINA: PROBLEMS OF US
INVESTORS CONF/NFD

NOV 74
01 OF 01

CONFIDENTIAL
NO FOREIGN DISSEM

CIA/OER/S-46649-74

Argentina: Problems of US Investors

1. The current difficulties of US firms in Argentina primarily reflect increased nationalistic restrictions on foreign investors generally and imprudent government policies to deal with the economy's worsening financial situation during the past 18 months. Argentina has long restricted foreign investment in key economic sectors such as petroleum and finance. Following the return of Juan Peron in May 1973 these restrictions were tightened to include prohibition of new investment in finance and most fields of marketing. Moreover, taxes on foreign firms have been set at higher rates than for similar domestic-owned firms, access to domestic credit has been effectively cut off, and severe limitations have been placed on profit remittances and capital repatriation. These measures stem from a desire to encourage domestic investment and protect or improve the balance of payments rather than to penalize foreign investors.

2. Government efforts to curb mounting inflation through price controls while allowing wages to rise during this period have seriously squeezed the profits of most large business enterprises. Because of the restrictions on foreign-owned firms, they have been the most seriously affected. Declining liquidity coupled with restrictions on

CONFIDENTIAL
NO FOREIGN DISSEM

MICRO
ONLY

CONFIDENTIAL
NO FOREIGN DISSEM

local borrowing have forced many US subsidiaries to turn to their parent firms to replenish working capital. In some instances US parent firms have reacted to persistent financial drains by shutting off funds, thus forcing their Argentine subsidiaries into near bankruptcy.

3. Price controls have recently been eased under newly appointed Economy Minister Gomes Morales to permit firms to pass on higher material costs. Auto prices have been allowed to advance about 25% since early November for example and some steel prices also have risen. Producers still are not permitted to pass on increased wage costs, however. The new flexibility thus has brought partial relief for most firms but will fail to provide them with adequate incentives to maintain their investments, much less to initiate major expansions.

4. The problems of US subsidiaries are compounded in a number of instances by government charges of mismanagement and illegal activity. Current moves to take over several foreign subsidiaries thus far appear to be either responses to the likelihood that the subsidiary will declare bankruptcy and close down or efforts to punish them for alleged improprieties. In all such instances, however, government moves appear to be free of discrimination as to the national

NO FOREIGN DISSEM

-2-
CONFIDENTIAL

CONFIDENTIAL
NO FOREIGN DISSEM

origin of the parent firm. Moreover, Argentine officials have consistently affirmed a preference for obtaining minority government equity shares in the subsidiaries rather than full nationalization.

Bank Nationalization

5. Shortly after returning to power, the Peronist government announced plans to nationalize several domestic banks that had been taken over by US investors since 1966. The government maintained that these takeovers were illegal because they had taken place under the "illegal" military regimes of that period. Thus far, the First National City Bank has reached an amicable compensation agreement with the government and Morgan Guaranty Trust appears satisfied with the government's offer. Only Chase Manhattan appears to have been dissatisfied. Chase's failure to come to terms probably was the principal cause of the recent "intervention" of the bank's Argentine holdings.

The Petroleum Industry

6. Argentina has long considered the petroleum industry of special national interest. For some years foreign companies have been prohibited from expanding their refining and marketing operations. Recently, with widespread popular support, the government nationalized foreign-owned domestic

CONFIDENTIAL
NO FOREIGN DISSEM

marketing operations. Within the next six months a new hydrocarbons law probably will be passed that will lead to the eventual takeover of foreign-owned refining operations as well.

7. US oil-refining subsidiaries, notably those of Exxon and Cities Service, have encountered serious financial difficulties since the government assumption of marketing operations. These difficulties apparently stem from government ineptitude in the handling of purchases of refinery products. Nevertheless, the possibility cannot be ruled out that the government is deliberately causing the refineries to lose money so that the parent companies will be willing to sell them at low prices.

Standard Electric

8. The government was clearly pushed into nationalizing Standard Electric, ITT's Argentine subsidiary -- along with a Siemens (of West Germany) subsidiary -- by the prospect that the two subsidiaries might be closed down because of insufficient working capital. The Italian-Argentine Electric Co. was also included in the takeover to placate the Argentine light and power labor union, which had been demanding nationalization of the Italian-owned subsidiary since August 1973. The government's dispute with Standard and Siemens dates back to allegations in early 1973 by the government

CONFIDENTIAL

CONFIDENTIAL
NO FOREIGN DISSEM

telephone company, ENTEL, and subsequently by a congressional investigating committee that the two subsidiaries had overcharged ENTEL for telephone equipment.

9. Prior to announcement of the intended takeover, ITT offered to sell Standard for book value of around \$50 million and assumption of current debts of some \$100 million. The government was not interested in making large outlays to acquire the properties, however, and rejected the offer, asking for only a 51% interest. Not wishing to remain a minority shareholder, ITT offered to surrender Standard simply for assumption of debts. Before expiration of the ITT offer, however, President Peron announced "nationalization" of the subsidiary. Compensation arrangements have yet to be worked out. The government clearly wants only a 51% equity in Standard, apparently desiring continued ITT participation.

Swift

10. In the Swift case -- probably the oldest dispute with US investors -- the government apparently was convinced that officials of Deltec -- the parent company -- were involved in a fraudulent bankruptcy action by Swift. The government nationalized all of Deltec's properties in Argentina on the ground that under Deltec guidance they were all engaged in similar fraudulent activities.

CONFIDENTIAL

NO FOREIGN DISSEM

CONFIDENTIAL
NO FOREIGN DISSEM

Xerox

11. Xerox's subsidiary, presently under investigation for alleged import over-invoicing, was reportedly asked for a bribe to assure a favorable outcome. Such occurrences are common in both foreign and domestic business dealings with Argentine public officials. They do not reflect official policy of pressure against business but rather the pervasiveness of corruption.

Automotive Industry

12. The government regards expansion of the foreign-dominated automotive industry as a key to export growth, and accordingly has tended to favor it. Nevertheless, the industry recently has been allowed to suffer a severe profit squeeze caused by government unwillingness to irritate consumers and labor by permitting adequate price hikes or strictly enforcing wage controls. While Gomez Morales has recently authorized price adjustments, producers still are incurring losses estimated as high as 10% of costs. General Motors' / ^{subsidiaries were} having difficulty meeting payrolls before the easing of price controls and ^{reportedly will} lose \$15 million on Argentine operations in 1974. Other auto-makers are in similar straits: several have been crippled by prolonged strikes or exorbitant wage hikes or both.

CONFIDENTIAL

CONFIDENTIAL
NO FOREIGN DISSEM

13. The government has added to the auto makers' problems by imposing unrealistically high export quotas. If financial difficulties were to force the companies to curtail operations, the government undoubtedly would take control to keep them going. This would be a last resort, however, since the government neither wants nor can afford to take on more state enterprises that operate at losses.

-7-

CONFIDENTIAL

NO FOREIGN DISSEM

CONFIDENTIAL

TO FOREIGN BUREAU 5-6649

CIA NO. 9334

29 November 1974

MEMORANDUM FOR: Mr. Frank V. Ortiz
APA/AFU
Department of State

SUBJECT : Argentina: Problems of US
Investors

In response to your request, our review of
the problems faced by US firms in Argentina is
attached. Further questions may be addressed to
the author, [REDACTED], Extension 5541.

25X1A

[REDACTED]
Chief,
Latin America Branch
Office of Economic Research

25X1A

Attachment:
As stated

Distribution: (S-6649)
Orig. & 1 - Addressee
1 - D/OER
1 - D/D
1 - St/P
1 - NIO/LA
2 - D/LA

OER/D/LA/[REDACTED]/mm/5541 (29 Nov 74)

25X1A

POOR ORIGINAL

CLASSIFIED BY	015319
EXCLUDED FROM AUTOMATIC DOWNGRADING AND DECLASSIFICATION	
REVIEW FOR DECLASSIFICATION	
S. 105-106, 108, 110, 112, 114, 116, 118, 120, 122, 124, 126, 128, 130, 132, 134, 136, 138, 140, 142, 144, 146, 148, 150, 152, 154, 156, 158, 160, 162, 164, 166, 168, 170, 172, 174, 176, 178, 180, 182, 184, 186, 188, 190, 192, 194, 196, 198, 200, 202, 204, 206, 208, 210, 212, 214, 216, 218, 220, 222, 224, 226, 228, 230, 232, 234, 236, 238, 240, 242, 244, 246, 248, 250, 252, 254, 256, 258, 260, 262, 264, 266, 268, 270, 272, 274, 276, 278, 280, 282, 284, 286, 288, 290, 292, 294, 296, 298, 300, 302, 304, 306, 308, 310, 312, 314, 316, 318, 320, 322, 324, 326, 328, 330, 332, 334, 336, 338, 340, 342, 344, 346, 348, 350, 352, 354, 356, 358, 360, 362, 364, 366, 368, 370, 372, 374, 376, 378, 380, 382, 384, 386, 388, 390, 392, 394, 396, 398, 400, 402, 404, 406, 408, 410, 412, 414, 416, 418, 420, 422, 424, 426, 428, 430, 432, 434, 436, 438, 440, 442, 444, 446, 448, 450, 452, 454, 456, 458, 460, 462, 464, 466, 468, 470, 472, 474, 476, 478, 480, 482, 484, 486, 488, 490, 492, 494, 496, 498, 500, 502, 504, 506, 508, 510, 512, 514, 516, 518, 520, 522, 524, 526, 528, 530, 532, 534, 536, 538, 540, 542, 544, 546, 548, 550, 552, 554, 556, 558, 560, 562, 564, 566, 568, 570, 572, 574, 576, 578, 580, 582, 584, 586, 588, 590, 592, 594, 596, 598, 600, 602, 604, 606, 608, 610, 612, 614, 616, 618, 620, 622, 624, 626, 628, 630, 632, 634, 636, 638, 640, 642, 644, 646, 648, 650, 652, 654, 656, 658, 660, 662, 664, 666, 668, 670, 672, 674, 676, 678, 680, 682, 684, 686, 688, 690, 692, 694, 696, 698, 700, 702, 704, 706, 708, 710, 712, 714, 716, 718, 720, 722, 724, 726, 728, 730, 732, 734, 736, 738, 740, 742, 744, 746, 748, 750, 752, 754, 756, 758, 760, 762, 764, 766, 768, 770, 772, 774, 776, 778, 780, 782, 784, 786, 788, 790, 792, 794, 796, 798, 800, 802, 804, 806, 808, 810, 812, 814, 816, 818, 820, 822, 824, 826, 828, 830, 832, 834, 836, 838, 840, 842, 844, 846, 848, 850, 852, 854, 856, 858, 860, 862, 864, 866, 868, 870, 872, 874, 876, 878, 880, 882, 884, 886, 888, 890, 892, 894, 896, 898, 900, 902, 904, 906, 908, 910, 912, 914, 916, 918, 920, 922, 924, 926, 928, 930, 932, 934, 936, 938, 940, 942, 944, 946, 948, 950, 952, 954, 956, 958, 960, 962, 964, 966, 968, 970, 972, 974, 976, 978, 980, 982, 984, 986, 988, 990, 992, 994, 996, 998, 1000	
Impossible to determine	
(unless impossible, insert date or event)	